**UNITED STATES DISTRICT COURT**
**SOUTHERN DISTRICT OF NEW YORK**

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| MAURA CULHANE, Individually and On Behalf of All Others Similarly Situated,<br><br>Plaintiff,<br><br>v.<br><br>U.S. PHYSICAL THERAPY, INC., CHRISTOPHER J. READING, LAWRANCE W. MCAFEE, and JON C. BATES,<br><br>Defendants. | Case No.:<br><br>**CLASS ACTION COMPLAINT FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS**<br><br>**JURY TRIAL DEMANDED** |

Plaintiff Maura Culhane ("Plaintiff"), by and through her attorneys, alleges the following upon information and belief, except as to those allegations concerning Plaintiff, which are alleged upon personal knowledge. Plaintiff's information and belief is based upon, among other things, his counsel's investigation, which includes without limitation: (a) review and analysis of regulatory filings made by U.S. Physical Therapy, Inc., ("USPh" or the "Company"), with the United States ("U.S.") Securities and Exchange Commission ("SEC"); (b) review and analysis of press releases and media reports issued by and disseminated by USPh; and (c) review of other publicly available information concerning USPh.

## NATURE OF THE ACTION AND OVERVIEW

1. This is a class action on behalf of persons and entities that acquired USPh's securities between May 8, 2014, and March 16, 2017, inclusive (the "Class Period"), against the Defendants,[1] seeking to pursue remedies under the Securities Exchange Act of 1934 (the "Exchange Act").

2. USPh, through its subsidiaries, purportedly operates outpatient physical therapy clinics that provide pre- and post-operative care and treatment for orthopedic-related disorders, sports-related injuries, preventative care, rehabilitation of injured workers and neurological-related injuries.

3. On March 16, 2017, the Company disclosed that its historical accounting for redeemable non-controlling interests of acquired partnerships was incorrect, and that the error would result in the reporting of a material weakness in internal controls over financial reporting. The Company further disclosed that, because of the error, the Company's previously issued financial statements for the years ended December 31, 2015 and 2014, and all quarters within 2014 and 2015, and the first three quarters of 2016 should no longer be relied upon, and that the Company would restate certain figures for the affected periods.

4. On this news, the price of USPh common stock fell $3.85 per share, or 5.2%, to close at $69.90 per share on March 16, 2017, on unusually heavy trading volume. The stock

[1] "Defendants" refers to U.S. Physical Therapy, Inc., Christopher J. Reading, Lawrance W. McAfee, and Jon C. Bates, collectively.

price continued to decline in the following trading days, falling $1.75 per share (2.5%) on March 17, 2017, $0.25 per share (0.3%) on March 20, 2017, and $3.15 per share (4.6%) on March 21, 2017, to close at $64.75 per share on March 21, 2017.

5. Throughout the Class Period, Defendants made materially false and/or misleading statements, as well as failed to disclose material adverse facts about the Company's business, operations, and prospects. Specifically, Defendants failed to disclose: (1) that the Company had a material weakness in its internal controls over accounting and financial reporting; (2) that the Company improperly accounted for redeemable non-controlling interests of acquired partnerships in violation of Generally Accepted Accounting Principles ("GAAP"); (3) that, as a result, the Company's financial statements for the years ended December 31, 2015 and 2014, and all quarters within 2014 and 2015, and the first three quarters of 2016 contained material errors; and (4) that, as a result of the foregoing, Defendants' statements about USPh's business, operations, and prospects, were false and misleading and/or lacked a reasonable basis.

6. As a result of Defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's securities, Plaintiff and other Class members have suffered significant losses and damages.

## JURISDICTION AND VENUE

7. The claims asserted herein arise under Sections 10(b) and 20(a) of the Exchange Act (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder by the SEC (17 C.F.R. § 240.10b-5).

8. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331 and Section 27 of the Exchange Act (15 U.S.C. § 78aa).

9. Venue is proper in this Judicial District pursuant to 28 U.S.C. § 1391(b) and Section 27 of the Exchange Act (15 U.S.C. § 78aa(c)). Substantial acts in furtherance of the alleged fraud or the effects of the fraud have occurred in this Judicial District. Many of the acts charged herein, including the dissemination of materially false and/or misleading information, occurred in this Judicial District. In addition, the Company's securities are traded in this Judicial District.

10. In connection with the acts, transactions, and conduct alleged herein, Defendants directly and indirectly used the means and instrumentalities of interstate commerce, including the United States mail, interstate telephone communications, and the facilities of a national securities exchange.

## PARTIES

11. Plaintiff Maura Culhane, as set forth in the accompanying certification, incorporated by reference herein, purchased USPh common stock during the Class Period, and suffered damages as a result of the federal securities law violations and false and/or misleading statements and/or material omissions alleged herein.

12. Defendant U.S. Physical Therapy, Inc. is incorporated in Nevada and its headquarters are in Houston, Texas. USPh's common stock trades on the New York Stock Exchange ("NYSE") under the symbol "USPH."

13. Defendant Christopher J. Reading ("Reading") was the Chief Executive Officer ("CEO") of USPh at all relevant times.

14. Defendant Lawrance W. McAfee ("McAfee") was the Chief Financial Officer ("CFO") of USPh at all relevant times.

15. Defendant Jon C. Bates ("Bates") was the Corporate Controller of USPh at all relevant times.

16. Defendants Reading, McAfee, and Bates (collectively the "Individual Defendants"), because of their positions with the Company, possessed the power and authority to control the contents of USPh's reports to the SEC, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, *i.e.*, the market. The Individual Defendants were provided with copies of the Company's reports and press releases alleged herein to be misleading prior to, or shortly after, their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions and access to material non-public information available to them, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to, and were being concealed from, the public, and that the positive representations which were being made were then materially

false and/or misleading. The Individual Defendants are liable for the false statements pleaded herein.

## SUBSTANTIVE ALLEGATIONS

### Background

17. USPh, through its subsidiaries, purportedly operates outpatient physical therapy clinics that provide pre- and post-operative care and treatment for orthopedic-related disorders, sports-related injuries, preventative care, rehabilitation of injured workers and neurological-related injuries.

### Materially False and Misleading Statements Issued During the Class Period

18. The Class Period begins on May 8, 2014. On that day, the Company issued a press release entitled "U.S. Physical Therapy Reports First Quarter 2014 Results" Therein, the Company, in relevant part, stated:

> Houston, TX, May 8, 2014 – U.S. Physical Therapy, Inc. (NYSE: USPH), a national operator of outpatient physical therapy clinics, today reported results for the first quarter ended March 31, 2014. Despite unusually bad weather in the first quarter of 2014, U.S. Physical Therapy's net income attributable to common shareholders from continuing operations increased by 9.8% to over $4.2 million as compared to approximately $3.9 million in the first quarter of 2013. Diluted earnings per share from continuing operations rose to $.35 in the recent quarter as compared to $.32 in the comparable 2013 period. The Company previously announced in early March, 2014 that the adverse weather prevalent in many parts of the country in January and February had resulted in more than 10,000 patient visits having been cancelled with an estimated earnings impact of $.04 per share.
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> **First Quarter 2014 Compared to First Quarter 2013 from Continuing Operations**
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> - Net revenues increased 11.2% from $62.8 million in the first quarter of 2013 to $69.8 in the first quarter of 2014, due to an increase in patient visits of 11.5% from 577,600 to 643,900 offset by a slight decrease in the average net revenue per visit to $106.23 from $106.36
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> - Total clinic operating costs were $53.1 million, or 76.1% of net revenues, in the first quarter of 2014, as compared to $47.9 million, or 76.3% of net revenues, in the 2013 period. The increase was attributable to $6.6 million in operating costs of new clinics opened or acquired in the past 12 months offset by a reduction in operating costs of $1.4 million for those clinics

opened or acquired prior to the past 12 months. Total clinic salaries and related costs, including that from new clinics, were 54.4% of net revenues in the recent quarter versus 54.3% in the 2013 period. Rent, clinic supplies, contract labor and other costs as a percentage of net revenues were 20.4% for the recent quarter versus 20.3% in the 2013 period. The provision for doubtful accounts as a percentage of net revenues was 1.4% for the 2014 period and 1.7% in the 2013 period.

- The gross margin for the first quarter of 2014 increased by 12.1% to $16.6 million from $14.8 million in the first quarter of 2013. The gross margin percentage was 23.9% for the 2014 quarter as compared to 23.7% for the comparable 2013 period.

- Corporate office costs were $7.1 million in the first quarter of 2014 as compared to $6.4 million in the 2013 first quarter. Corporate office costs were 10.2% of net revenues in both periods.

- Operating income for the recent quarter increased by 12.8% to $9.5 million compared to $8.4 million in the 2013 first quarter.

- Interest expense was $0.3 million in the first quarter of 2014 versus $0.1 million in the first quarter of last year. The increase in interest expense is due to a higher average outstanding balance on the Company's line of credit as the result of acquisitions.

- The provision for income taxes for the 2014 period was $2.9 million and for the 2013 period $2.5 million. The provision for income taxes as a percentage of income before taxes less net income attributable to non-controlling interest was 41.0% in the 2014 first quarter and 38.9% in the 2013 first quarter.

- Net income attributable to non-controlling interests, inclusive of discontinued operations, was $2.1 million in the recent quarter as compared to $1.9 million in the year earlier period.

- Net income attributable to common shareholders for the three months ended March 31, 2014 was $4.2 million compared to $3.9 million for the three months ended March 31, 2013. Diluted earnings per share from continuing operations were $0.35 for the 2014 period and $0.32 for the 2013 period.

- Same store visits increased slightly for de novo and acquired clinics open for one year or more while revenue decreased 1.7% as the average net rate per visit decreased by $1.91. In April, 2013, both the Medicare Multiple Procedure Payment Reduction ("MPPR") and Sequestration went into effect which reduced the Company's reimbursement for Medicare patients by approximately 10%.

> Larry McAfee, Chief Financial Officer, noted, “The first week of March we announced that patient visits and earnings had been adversely affected by the especially poor weather in January and February. At the same time we also noted that patient referrals year-to-date were ahead of budget. The combination of improving weather and the strong referral backlog resulted in a significant improvement in patient visits in the month of March.”
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> Chris Reading, Chief Executive Officer, said, “Despite the incredibly challenging weather for the first few months of this year, I am very pleased at our team’s persistence and perseverance as they have continuously strived to produce a good result for our patients as well as our shareholders. Integration of the acquisitions completed last year is going very well and we are excited about the talent we have added through these deals including our newest acquisition announced just last week. Lastly I am encouraged by our improving expense management which has been a key focus for us and where we have continued room to improve further.”

19. On May 9, 2014, the Company filed its quarterly report on Form 10-Q for the first quarter of 2014. The Form 10-Q was signed by Defendants McAfee and Bates, and reaffirmed the financial results announced in the press release issued on May 8, 2014.

20. The Form 10-Q also contained certifications pursuant to the Sarbanes-Oxley Act of 2002 (“SOX”), signed by Defendants Reading, McAfee, and Bates, who certified the following:

> 1. I have reviewed this quarterly report on Form 10-Q of U.S. Physical Therapy, Inc.;
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> 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
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> 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
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> 4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
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>> (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its

consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

21. On August 7, 2014, the Company issued a press release entitled "U.S. Physical Therapy Reports Record Results and Raises 2014 Earnings Guidance." Therein, the Company, in relevant part, stated:

U.S. Physical Therapy, Inc. (NYSE: USPH), a national operator of outpatient physical therapy clinics, today reported results for the second quarter and six months ended June 30, 2014.

U.S. Physical Therapy's net income attributable to common shareholders from continuing operations for the second quarter of 2014 increased by 26.6% to $6.4 million as compared to approximately $5.1 million in the second quarter of 2013. Diluted earnings per share from continuing operations rose to $.53 in the recent

quarter as compared to $.42 in the comparable 2013 period.

U.S. Physical Therapy's net income attributable to common shareholders from continuing operations for the first six months of 2014 increased by 19.4% to $10.7 million as compared to approximately $8.9 million in the first six months of 2013. Diluted earnings per share from continuing operations rose to $.87 in the recent period as compared to $.74 in the comparable 2013 period.

**Second Quarter 2014 Compared to Second Quarter 2013 from Continuing Operations**

- Net revenues increased 16.9% from $66.9 million in the second quarter of 2013 to $78.2 million in the second quarter of 2014, due to an increase in patient visits of 17.1% from 613,900 to 718,800 and a slight increase in the average net revenue per visit to $106.39 from $106.25.

- Total clinic operating costs were $56.4 million, or 72.1% of net revenues, in the second quarter of 2014, as compared to $49.3 million, or 73.7% of net revenues, in the 2013 period. Total clinic salaries and related costs, including that from new clinics, were 51.3% of net revenues in the recent quarter versus 53.1% in the 2013 period. Rent, clinic supplies, contract labor and other costs as a percentage of net revenues were 19.4% for the recent quarter versus 18.8% in the 2013 period. The provision for doubtful accounts as a percentage of net revenues was 1.3% for the 2014 period and 1.8% in the 2013 period.

- The gross margin for the second quarter of 2014 increased by 24.2% to $21.8 million from $17.6 million in the second quarter of 2013. The gross margin percentage was 27.9% for the 2014 quarter as compared to 26.3% for the comparable 2013 period.

- Corporate office costs were $7.6 million in the second quarter of 2014 as compared to $6.5 million in the 2013 second quarter. Corporate office costs were 9.7% of net revenues in the current period and 9.8% for the comparable 2013 period.

- Operating income for the recent quarter increased by 28.6% to $14.2 million compared to $11.1 million in the 2013 second quarter.

- Interest expense was $0.3 million in the second quarter of 2014 versus $0.1 million in the second quarter of last year. The increase in interest expense is due to a higher average debt balance as the result of acquisitions.

- The provision for income taxes for the 2014 period was $4.5 million and for the 2013 period $3.3 million. The provision for income taxes as a percentage of income before taxes less net income attributable to non-controlling interest was 41.0% in the 2014 second quarter and 38.8% in

the 2013 second quarter.

- Net income attributable to non-controlling interests, inclusive of discontinued operations, was $3.0 million in the recent quarter as compared to $2.5 million in the year earlier period.

- Net income attributable to common shareholders for the three months ended June 30, 2014 was $6.4 million compared to $5.1 million for the three months ended June 30, 2013. Diluted earnings per share from continuing operations were $.53 for the 2014 period and $.42 for the 2013 period.

- Same store visits increased 4.6% for de novo and acquired clinics open for one year or more and same store revenue increased 4.1% as the average net rate per visit decreased by $.58.

**First Six Months 2014 Compared to First Six Months 2013 from Continuing Operations**

- Net revenues increased 14.2% from $129.6 million in the first six months of 2013 to $148.0 million in the first six months of 2014, due to an increase in patient visits of 14.4% from 1,191,000 to 1,363,000. The average net revenue per visit remained relatively the same for the two periods at $106.31 for the current period and $106.30 for the comparable 2013 period.

- Total clinic operating costs were $109.5 million, or 74.0% of net revenues, in the first six months of 2014, as compared to $97.2 million, or 75.0% of net revenues, in the 2013 period. Total clinic salaries and related costs were 52.7% of net revenues in the first six months of 2014 versus 53.7% in the 2013 period. Rent, clinic supplies, contract labor and other costs as a percentage of net revenues were 19.9% for the recent period versus 19.5% in the 2013 period. The provision for doubtful accounts as a percentage of net revenues was 1.4% for the 2014 period and 1.8% in the 2013 period.
- The gross margin for the first six months of 2014 increased by 18.6% to $38.5 million from $32.4 million in the first six months of 2013. The gross margin percentage was 26.0% for the 2014 first six months as compared to 25.0% for the comparable 2013 period.

- Corporate office costs were $14.7 million in the first six months of 2014 as compared to $12.9 million in the 2013 first six months. Corporate office costs were 10.0% of net revenues in both periods.

- Operating income for the first six months of 2014 increased by 21.8% to $23.7 million compared to $19.5 million in the 2013 first six months.

- Interest expense was $0.6 million in the first six months of 2014 versus $0.3 million in the first six months of last year. The increase in interest

expense is due to a higher average outstanding debt balance as the result of acquisitions.

- The provision for income taxes for the 2014 period was $7.4 million and for the 2013 period $5.8 million. The provision for income taxes as a percentage of income before taxes less net income attributable to non-controlling interest was 41.0% in the 2014 first six months and 38.8% in the 2013 first six months.

- Net income attributable to non-controlling interests, inclusive of discontinued operations, was $5.1 million in the first six months of 2014 as compared to $4.3 million in the year earlier period.

- Net income attributable to common shareholders for the six months ended June 30, 2014 was $10.7 million compared to $8.9 million for the six months ended June 30, 2013. Diluted earnings per share from continuing operations were $.87 for the 2014 period and $.74 for the 2013 period.

- Same store visits increased 2.7% for de novo and acquired clinics open for one year or more and revenue increased 1.9% as the average net rate per visit decreased by $.83.

Chris Reading, Chief Executive Officer, said, "I am extremely proud of our entire team for their persistence and perseverance in executing our Company's plan for this year. Our partners, directors and sales teams are working well together to drive referrals and deliver superior service. Our Fit2WRK group continues to land terrific employer accounts which have assisted us in further improving our payor base while also driving new customers into our many partnerships around the country. Our abundant internal development resources are assisting our very capable acquired and long-standing de novo partnerships with organic as well as tuck-in opportunities which will further assist in our ability to positively impact more patients' lives in the communities in which we serve. While the environment is challenging many providers, we continue to be delighted with the quality of the people we are attracting to our team."

Larry McAfee, Chief Financial Officer, noted, "U.S. Physical Therapy's net free cash flow remains strong. During the second quarter the Company's total debt was reduced slightly despite a 13 clinic acquisition for $11.2 million in April."

**Management Earnings Guidance**

U.S. Physical Therapy's management is revising and raising the Company's earnings guidance from continuing operations for the year 2014 to be in the range of $20.0 million to $20.9 million in net income and $1.64 to $1.70 in diluted earnings per share. Earlier guidance issued in March was for annual net income in the range of $18.8 million to $19.6 million and $1.53 to $1.60 in diluted earnings per share. Management's guidance range represents projected earnings from existing operations only and excludes future potential acquisitions. The annual

> guidance figures will not be updated unless there is a material development that causes management to believe that earnings will be significantly outside the given range.

22. On the same day, August 7, 2014 the Company filed its quarterly report on Form 10-Q for the 2014 fiscal second quarter. The Form 10-Q was signed by Defendants McAfee and Bates, and affirmed the financial results announced in the press release issued the same day. The Form 10-Q contained certifications pursuant to SOX, signed by Defendants Reading, McAfee, and Bates, substantially similar to the certification described in ¶20, *supra*.

23. On November 6, 2014, the Company issued a press release entitled "U.S. Physical Therapy Reports Third Quarter Results." Therein, the Company, in relevant part, stated:

> U.S. Physical Therapy, Inc. (NYSE: USPH), a national operator of outpatient physical therapy clinics, today reported results for the third quarter and nine months ended September 30, 2014.
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> U.S. Physical Therapy's net income attributable to common shareholders from continuing operations for the third quarter of 2014 increased by 12.0% to $5.2 million as compared to approximately $4.7 million in the third quarter of 2013. Diluted earnings per share from continuing operations rose to $.43 in the recent quarter as compared to $.38 in the comparable 2013 period.
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> U.S. Physical Therapy's net income attributable to common shareholders from continuing operations for the first nine months of 2014 increased by 16.8% to $15.9 million as compared to approximately $13.6 million in the first nine months of 2013. Diluted earnings per share from continuing operations rose to $1.30 in the recent period as compared to $1.12 in the comparable 2013 period.
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> **Third Quarter 2014 Compared to Third Quarter 2013 from Continuing Operations**
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> - Net revenues increased 18.1% from $65.8 million in the third quarter of 2013 to $77.7 million in the third quarter of 2014, due to an increase in patient visits of 17.6% from 611,400 to 719,300 and an increase in the average net revenue per visit to $105.92 from $105.27.
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> - Total clinic operating costs were $59.0 million, or 75.9% of net revenues, in the third quarter of 2014, as compared to $49.7 million, or 75.5% of net revenues, in the 2013 period. Total clinic salaries and related costs, including that from new clinics, were 53.8% of net revenues in the recent quarter versus 54.3% in the 2013 period. Rent, clinic supplies, contract labor and other costs as a percentage of net revenues were 20.7% for the recent quarter versus 19.6% in the 2013 period. The provision for doubtful accounts as a percentage of net revenues was 1.4% for the 2014 period and

1.7% in the 2013 period.

- The gross margin for the third quarter of 2014 increased by 16.2% to $18.7 million from $16.1 million in the third quarter of 2013. The gross margin percentage was 24.1% for the 2014 period versus 24.5% in the 2013 period.

- Corporate office costs were $7.4 million in the third quarter of 2014 as compared to $6.2 million in the 2013 third quarter. Corporate office costs as a percentage of net revenues were 9.6% for the period 2014 and 9.5% in the 2013 period.

- Operating income for the recent quarter increased by 13.9% to $11.3 million compared to $9.9 million in the 2013 third quarter.

- Interest expense was $0.2 million in the third quarter of 2014 versus $0.1 million in the third quarter of last year. The increase in interest expense is due to a higher average debt balance as the result of acquisitions.

- The provision for income taxes for the 2014 period was $3.6 million and for the 2013 period $3.0 million. The provision for income taxes as a percentage of income before taxes less net income attributable to non-controlling interest was 41.0% in the 2014 third quarter and 39.0% in the 2013 third quarter.

- Net income attributable to non-controlling interests, inclusive of discontinued operations, was $2.2 million in the recent quarter as compared to $2.0 million in the year earlier period.

- Net income attributable to common shareholders for the three months ended September 30, 2014 was $5.2 million compared to $4.7 million for the three months ended September 30, 2013. Diluted earnings per share from continuing operations were $.43 for the 2014 period and $.38 for the 2013 period.

- Same store visits increased 4.9% for de novo and acquired clinics open for one year or more and same store revenue increased 4.5% as the average net rate per visit decreased by $.42.

**First Nine Months 2014 Compared to First Nine Months 2013 from Continuing Operations**

- Net revenues increased 15.5% from $195.5 million in the first nine months of 2013 to $225.7 million in the first nine months of 2014, due to an increase in patient visits of 15.5% from 1,802,900 to 2,081,900 and a slight increase in the average net revenue per visit to $106.18 for the current period from $105.96 for the comparable 2013 period.

- Total clinic operating costs were $168.5 million, or 74.6% of net revenues, in the first nine months of 2014, as compared to $146.9 million, or 75.2% of net revenues, in the 2013 period. Total clinic salaries and related costs were 53.1% of net revenues in the first nine months of 2014 versus 53.9% in the 2013 period. Rent, clinic supplies, contract labor and other costs as a percentage of net revenues were 20.2% for the recent period versus 19.5% in the 2013 period. The provision for doubtful accounts as a percentage of net revenues was 1.4% for the 2014 period and 1.7% in the 2013 period.

- The gross margin for the first nine months of 2014 increased by 17.8% to $57.2 million from $48.6 million in the first nine months of 2013. The gross margin percentage was 25.4% for the 2014 first nine months as compared to 24.8% for the comparable 2013 period.

- Corporate office costs were $22.2 million in the first nine months of 2014 as compared to $19.2 million in the 2013 first nine months. Corporate office costs were 9.8% of net revenues in both periods.

- Operating income for the first nine months of 2014 increased by 19.1% to $35.0 million compared to $29.4 million in the 2013 first nine months.

- Interest expense was $0.8 million in the first nine months of 2014 versus $0.4 million in the first nine months of last year. The increase in interest expense is due to a higher average outstanding debt balance as the result of acquisitions.

- The provision for income taxes for the 2014 period was $11.0 million and for the 2013 period $8.8 million. The provision for income taxes as a percentage of income before taxes less net income attributable to non-controlling interest was 41.0% in the 2014 first nine months and 38.9% in the 2013 first nine months.

- Net income attributable to non-controlling interests, inclusive of discontinued operations, was $7.3 million in the first nine months of 2014 as compared to $6.4 million in the year earlier period.

- Net income attributable to common shareholders for the nine months ended September 30, 2014 was $15.9 million compared to $13.6 million for the nine months ended September 30, 2013. Diluted earnings per share from continuing operations were $1.30 for the 2014 period and $1.12 for the 2013 period.

- Same store visits increased 3.9% for de novo and acquired clinics open for one year or more and same store revenue increased 3.3% as the average net rate per visit decreased by $.65.

Chris Reading, Chief Executive Officer, said, “I remain grateful to our entire team for their continued efforts on behalf of our patients, referral sources and

> shareholders to deliver outstanding care and value. Despite having to deal with the summer vacation season, which is always a challenge, our clinics produced same store patient volume growth of 4.9% for the quarter which is well ahead of the same period last year and slightly ahead of the second quarter this year. Many of our legacy as well as acquired partnerships are delivering record results. Our Fit2WRK group continues to assist our partners in further expanding and diversifying their referral portfolios while providing superior outcomes to the companies and their employees we are privileged to serve. Additionally, we expect to see continued acquisition opportunities as a result of ongoing consolidation of our fragmented outpatient physical therapy industry."

24. On November 7, 2014 the Company filed its quarterly report on Form 10-Q for the 2014 fiscal third quarter. The Form 10-Q was signed by Defendants McAfee and Bates, and reaffirmed the financial results announced in the press release issued on November 6, 2014. The Form 10-Q contained certifications pursuant to SOX, signed by Defendants Reading, McAfee, and Bates, substantially similar to the certification described in ¶20, *supra*.

25. On March 5, 2015, the Company issued a press release entitled "U.S. Physical Therapy Reports Record Earnings." Therein, the Company, in relevant part, stated:

> U.S. Physical Therapy, Inc. (NYSE: USPH), a national operator of outpatient physical therapy clinics, today reported results for the fourth quarter and year ended December 31, 2014. In the fourth quarter of 2014, U.S. Physical Therapy's net income attributable to common shareholders from continuing operations prior to revaluation of redeemable non-controlling interests, net of tax ("operating results") increased by 27.5% to $5.0 million as compared to approximately $3.9 million in the fourth quarter of 2013. Diluted earnings per share from operating results rose to $0.41 in the recent quarter as compared to $0.32 in the comparable 2013 period. For the year 2014, U.S. Physical Therapy's operating results increased by 19.2% to $20.9 million as compared to approximately $17.5 million for the 2013 year. Diluted earnings per share from operating results rose to $1.71 in 2014 as compared to $1.45 in 2013.
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> **Fourth Quarter 2014 Compared to Fourth Quarter 2013 from Continuing Operations Unless Otherwise Noted**
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> - Net revenues increased 15.7% from $68.6 million in the fourth quarter of 2013 to $79.4 million in the fourth quarter of 2014, due to an increase in patient visits of 15.6% from 638,000 to 737,000 and an increase in the average net revenue per visit of $0.32 to $105.79 from $105.47.
>
> - Total clinic operating costs were $60.5 million, or 76.1% of net revenues, in the fourth quarter of 2014, as compared to $52.5 million, or 76.5% of net revenues, in the 2013 period. Of the dollar increase, $4.3 million was attributable to operating costs of new clinics opened or acquired in the past

12 months. Total clinic salaries and related costs, including that from new clinics, were 54.9% of net revenues in the recent quarter versus 53.2% in the 2013 period. Rent, clinic supplies, contract labor and other costs as a percentage of net revenues were reduced to 19.7% for the recent quarter versus 21.5% in the 2013 period. The provision for doubtful accounts as a percentage of net revenues was 1.3% for the 2014 period and 1.4% in the 2013 period.

- The gross margin for the fourth quarter of 2014 increased by 17.4% to $18.9 million from $16.1 million in the fourth quarter of 2013. The gross margin percentage increased to 23.9% for the 2014 period as compared to 23.5% for the 2013 period.

- Corporate office costs were $8.2 million in the fourth quarter of 2014 as compared to $6.8 million in the 2013 fourth quarter. Corporate office costs as a percentage of net revenues were 10.3% for the 2014 period and 9.9% in the 2013 period.

- Operating income for the recent quarter increased by 14.8% to $10.8 million as compared to $9.4 million in the 2013 fourth quarter.

- Interest expense was $0.3 million in the fourth quarter of 2014 versus $0.1 million in the fourth quarter of last year. The increase in interest expense is due to a higher average debt balance as the result of acquisitions.

- The provision for income taxes for the 2014 period was $3.2 million and for the 2013 period $3.4 million. The provision for income taxes as a percentage of income before taxes less net income attributable to non-controlling interest was 39.4% in the 2014 fourth quarter and 46.8% in the 2013 period. In the current period, after a reconciliation of the 2013 federal and state tax returns to our book provision, we reduced our 2014 tax rate to 40.0% from 41.0% previously accrued for the first nine months of 2014 and recorded an additional provision of $0.2 million for 2013.

- Net income attributable to non-controlling interests, inclusive of discontinued operations, was $2.3 million in the recent quarter as compared to $1.9 million in the period 2013.

- Net income attributable to common shareholders for the three months ended December 31, 2014 increased by 27.5% to $5.0 million compared to $3.9 million for the three months ended December 31, 2013. Diluted earnings per share from operating results were $0.41 for the 2014 period and $0.32 for the 2013 period.

- Same store visits increased 2.8% for de novo and acquired clinics open for one year or more while same store revenue increased 2.0% as the average net rate per visit decreased by $0.81.

**<u>Year 2014 Compared to Year 2013 from Continuing Operations Unless Otherwise Noted</u>**

- Net revenues increased 15.5% from $264.1 million in 2013 to $305.1 million in 2014, due to an increase in patient visits of 15.5% from 2,441,000 to 2,819,000 and an increase in the average net revenue per visit to $106.08 for the past year from $105.83 in 2013

- Total clinic operating costs were $228.9 million or 75.0% of net revenues for 2014, as compared to $199.4 million or 75.5% of net revenues, for 2013. The dollar increase included $10.2 million in operating costs of new clinics opened or acquired in 2014. Of the remaining increase, $18.5 million was from clinics added throughout 2013. Total clinic salaries and related costs were 53.6% of net revenues in 2014 versus 53.7% in 2013. Rent, clinic supplies, contract labor and other costs as a percentage of net revenues were 20.1% for the past year versus 20.0% in 2013. The provision for doubtful accounts as a percentage of net revenues was 1.3% for 2014 and 1.7% in 2013.

- The gross margin for 2014 increased by 17.7% to $76.2 million from $64.7 million in 2013. The gross margin percentage increased to 25.0% in 2014 as compared to 24.5% in 2013.

- Corporate office costs were $30.4 million for 2014 as compared to $25.9 million for 2013. Corporate office costs were 10.0% of net revenues for 2014 and 9.8% for 2013.

- Operating income increased 18.1% to $45.8 million in 2014 as compared to $38.8 million in 2013.

- Interest expense was $1.1 million in 2014 versus $0.5 million in 2013. The increase in interest expense is due to a higher average outstanding debt balance as the result of acquisitions.

- The provision for income taxes for 2014 was $14.3 million and for 2013 it was $12.2 million. The provision for income taxes as a percentage of income before taxes less net income attributable to non-controlling interest was 40.6% in 2014 and 41.1% in 2013.

- Net income attributable to non-controlling interests, inclusive of discontinued operations, was $9.6 million in 2014 as compared to $8.3 million in 2013.

- Net income attributable to common shareholders for the year ended December 31, 2014 increased 19.2% to $20.9 million as compared to $17.5 million for the year ended December 31, 2013. Diluted earnings per share from operating results rose to $1.71 for 2014 versus $1.45 for 2013.

> - Same store visits increased 4.6% for de novo and acquired clinics open for one year or more and same store revenue increased 3.8% as the average net rate per visit decreased by $0.79.
>
> Chris Reading, Chief Executive Officer, said, "I am very pleased with the strong results that our entire team delivered for the year. Our organic and acquired partnerships are growing, we are attracting great talent in all areas of our Company and we are rolling out new programs which will further help us to impact more patient lives in a very positive way. Our development activities are generating great results and are bringing some exciting newly acquired partnerships into our already strong family of partners. In 2015 we remain focused on all of the core initiatives that helped to produce an exceptional 2014."
>
> Larry McAfee, Chief Financial Officer, noted, "Despite increasing the Company's dividend and opening or acquiring 35 clinics during the year the Company's ending debt balance was reduced by approximately $5.9 million, or 14%, in 2014 as cash flow from operations remained strong."

26. On March 12, 2015 the Company filed its annual report on Form 10-K for the 2014 fiscal year. The Form 10-K was signed by Defendants McAfee and Bates, and reaffirmed the financial results announced in the press release issued on March 5, 2015. The Form 10-K contained certifications pursuant to SOX, signed by Defendants Reading, McAfee, and Bates, substantially similar to the certification described in ¶20, *supra*.

27. On May 7, 2015, the Company issued a press release entitled "U.S. Physical Therapy Reports First Quarter 2015 Results Company Declares $.15 Per Share Quarterly Dividend." Therein, the Company, in relevant part, stated:

> U.S. Physical Therapy, Inc. (NYSE: USPH), a national operator of outpatient physical therapy clinics, today reported results for the first quarter ended March 31, 2015.
>
> U.S. Physical Therapy's net income attributable to common shareholders prior to revaluation of redeemable non-controlling interests, net of tax ("operating results") was $4.2 million for the first quarter of 2015 and for the first quarter of 2014. Diluted earnings per share from operating results were $.34 in the recent quarter as compared to $.35 in the comparable 2014 period. As noted in the Company's press release on March 5, the unusually severe winter weather prevalent in many parts of the country during the first quarter adversely impacted operations. Management estimates that more than 20,000 patient visits were cancelled with an earnings impact of $.07 to $.09 per share.

**First Quarter 2015 Compared to First Quarter 2014**

- Net revenues increased 10.7% from $69.8 million in the first quarter of 2014 to $77.2 million in the first quarter of 2015, due to an increase in total patient visits of 10.7% from 643,900 to 712,900 and a slight increase in the average net revenue per visit to $106.34 from $106.23. Net revenues from new clinics opened or acquired in the past 12 months was $6.2 million.

- Total clinic operating costs were $60.4 million, or 78.2% of net revenues, in the first quarter of 2015, as compared to $53.1 million, or 76.1% of net revenues, in the 2014 period. The increase was primarily attributable to $5.5 million in operating costs of new clinics opened or acquired in the past 12 months. Total clinic salaries and related costs, including those from new clinics, were 55.7% of net revenues in the recent quarter versus 54.4% in the 2014 period. Rent, clinic supplies, contract labor and other costs as a percentage of net revenues were 21.1% for the recent quarter versus 20.4% in the 2014 period. The provision for doubtful accounts as a percentage of net revenues was 1.3% for the 2015 period and 1.4% in the 2014 period.

- The gross margin for the first quarter of 2015 was $16.8 million or 21.8%, as compared to $16.6 million or 23.9% for the 2014 quarter.

- Corporate office costs were $7.7 million in the first quarter of 2015 compared to $7.1 million in the 2014 first quarter. Corporate office costs were 9.9% of net revenues for the 2015 quarter compared to 10.2% of net revenues for the 2014 quarter.

- Operating income for the recent quarter was $9.2 million compared to $9.5 million in the 2014 first quarter.

- Interest expense was $0.3 million in the first quarter of 2015 and 2014.

- The provision for income taxes for the 2015 period was $2.8 million and for the 2014 period $2.9 million. The provision for income taxes as a percentage of income before taxes less net income attributable to non-controlling interest was 40.0% in the 2015 first quarter and 41.0% in the 2014 first quarter.

- Net income attributable to non-controlling interests was $2.0 million in the recent quarter as compared to $2.1 million in the year earlier period.

- Operating results attributable to common shareholders for the three months ended March 31, 2015 and 2014 was consistent at $4.2 million for each period. Diluted earnings per share from operating results were $0.34 for the 2015 period and $0.35 for the 2014 period.

- Same store visits increased 3.8% for de novo and acquired clinics open for one year or more and same store revenue increased 4.2% as the average net rate per visit increased by $.40.

> Chris Reading, Chief Executive Officer, said, "This was undoubtedly a difficult quarter from a weather perspective yet there were a number of bright spots including solid same store visit growth, strong referral volume and a couple of acquisitions closed in the early part of this year. I continue to have great confidence in our team and in our collective ability to execute on our plan for 2015."
>
> Larry McAfee, Chief Financial Officer, noted, "By mid-March, after the winter storms subsided, the Company's average daily patient visits rose significantly such that we ended the first quarter at a solid run rate. Absent the severe weather, patient visits in the first quarter would have been higher as same store patient referrals increased a strong 4.6%."

28. On the same day, May 7, 2015 the Company filed its quarterly report on Form 10-Q for the 2015 fiscal first quarter. The Form 10-Q was signed by Defendants McAfee and Bates, and affirmed the financial results announced in the press release issued the same day. The Form 10-Q contained certifications pursuant to SOX, signed by Defendants Reading, McAfee, and Bates, substantially similar to the certification described in ¶20, *supra*.

29. On August 6, 2015, the Company issued a press release entitled "U.S. Physical Therapy Reports Second Quarter and First Six Months 2015 Results; Company Declares $0.15 Per Share Quarterly Dividend; Issues Updated Earnings Guidance for 2015." Therein, the Company, in relevant part, stated:

> U.S. Physical Therapy, Inc. (NYSE: USPH), a national operator of outpatient physical therapy clinics, today reported results for the quarter and six months ended June 30, 2015.
>
> U.S. Physical Therapy's net income attributable to common shareholders prior to revaluation of redeemable non-controlling interests, net of tax ("operating results") was $6.3 million for the second quarter of 2015 as compared to $6.4 million in the second quarter of 2014. Diluted earnings per share from operating results were $0.51 in the recent quarter as compared to $0.53 in the comparable 2014 period.
>
> U.S. Physical Therapy's operating results for the first six months of 2015 were $10.5 million as compared to $10.7 million in the first six months of 2014. Diluted earnings per share from operating results were $0.85 in the first half of 2015 as compared to $0.87 in the comparable 2014 period.

**Second Quarter 2015 Compared to Second Quarter 2014**

- Net revenues increased 6.5% from $78.2 million in the second quarter of 2014 to $83.3 million in the second quarter of 2015, due to an increase in total patient visits of 8.1% from 718,800 to 776,900 offset by a decrease in the average net revenue per visit to $104.85 for the 2015 second quarter from $106.39 for the 2014 second quarter. Net revenues for new clinics opened or acquired in the past 12 months was $4.4 million.

- Total clinic operating costs were $62.1 million, or 74.6% of net revenues, in the second quarter of 2015, as compared to $56.4 million, or 72.1% of net revenues, in the 2014 period. The increase was primarily attributable to $3.9 million in operating costs of new clinics opened or acquired in the past 12 months. Total clinic salaries and related costs, including those from new clinics, were 53.3% of net revenues in the recent quarter versus 51.3% in the 2014 period. Rent, clinic supplies, contract labor and other costs as a percentage of net revenues were 20.0% for the recent quarter versus 19.4% in the 2014 period. The provision for doubtful accounts as a percentage of net revenues was 1.3% for both periods.

- The gross margin for the second quarter of 2015 was $21.1 million or 25.4%, as compared to $21.8 million or 27.9% for the 2014 period.

- Corporate office costs were $7.6 million in the second quarter of 2015 and 2014. Corporate office costs were 9.1% of net revenues for the 2015 second quarter compared to 9.7% of net revenues for the 2014 period.

- Operating income for the recent quarter was $13.5 million compared to $14.2 million in the 2014 second quarter.

- Interest expense was $0.2 million in the second quarter of 2015 and $0.3 million in the second quarter of 2014.

- The provision for income taxes for the 2015 period was $4.2 million and for the 2014 period $4.5 million. The provision for income taxes as a percentage of income before taxes less net income attributable to non-controlling interest was 40.0% in the 2015 second quarter and 41.0% in the 2014 second quarter.

- Net income attributable to non-controlling interests was $2.8 million in the recent quarter as compared to $3.0 million in the year earlier period.

- Net income attributable to common shareholders prior to revaluation of redeemable non-controlling interests, net of tax for the three months ended June 30, 2015 was $6.3 million and $6.4 million for the 2014 period. Diluted earnings per share from operating results were $0.51 for the 2015 period and $0.53 for the 2014 period.

- Same store visits increased 2.9% for de novo and acquired clinics open for one year or more and same store revenue increased 1.3% as the average net rate per visit decreased by $1.60.

**First Six Months 2015 Compared to First Six Months 2014**

- Net revenues increased 8.5% from $148.0 million in the first six months of 2014 to $160.5 million in the first six month of 2015, due to an increase in total patient visits of 9.3% from 1,362,600 to 1,489,700 offset by a decrease in the average net revenue per visit to $105.56 for the first half of 2015 from $106.31 for the 2014 period. Net revenues from new clinics opened or acquired in the past 12 months was $7.1 million.

- Total clinic operating costs were $122.5 million, or 76.3% of net revenues, in the first six months of 2015, as compared to $109.5 million, or 74.0% of net revenues, in the 2014 period. The increase includes $6.4 million in operating costs of new clinics opened or acquired in the past 12 months. Total clinic salaries and related costs, including those from new clinics, were 54.5% of net revenues in the first six months versus 52.7% in the 2014 period. Rent, clinic supplies, contract labor and other costs as a percentage of net revenues were 20.6% for the recent period versus 19.9% in the 2014 period. The provision for doubtful accounts as a percentage of net revenues was 1.3% for the 2015 period and 1.4% in the 2014 period.

- The gross margin for the first six months of 2015 was $38.0 million or 23.7%, as compared to $38.5 million or 26.0% for the 2014 period.

- Corporate office costs were $15.3 million in the first six months of 2015 compared to $14.7 million in the 2014 period. Corporate office costs were 9.5% of net revenues for the 2015 first six months as compared to 10.0% of net revenues for the 2014 period.

- Operating income for the first six months of 2015 was $22.7 million compared to $23.7 million in the 2014 first six months.

- Interest expense was $0.5 million in the first six months of 2015 versus $0.6 million in the first six months of 2014.

- The provision for income taxes for the 2015 period was $7.0 million and for the 2014 period $7.4 million. The provision for income taxes as a percentage of income before taxes less net income attributable to non-controlling interest was 40.0% in the 2015 first six months and 41.0% in the 2014 first six months.

- Net income attributable to non-controlling interests was $4.8 million for the six months of 2015 as compared to $5.1 million in the year earlier period.

- Net income attributable to common shareholders prior to revaluation of redeemable non-controlling interests, net of tax for the six months ended June 30, 2015 was $10.5 million compared to $10.7 million for the six months ended June 30, 2014. Diluted earnings per share from operating results were $0.85 for the 2015 period and $0.87 for the 2014 period.

- Same store visits increased 3.1% for de novo and acquired clinics open for one year or more and same store revenue increased 2.5%. The average net rate per visit decreased by $0.65.

> Chris Reading, Chief Executive Officer, said, "During May and June we experienced an unexpected net rate decline in an otherwise busy patient visits quarter. Management, working together with the affected partnerships, has recently taken a number of operational steps to improve the net rate and appropriately adjust costs. Our updated earnings guidance reflects these actions and the rate change. We continue our emphasis on increasing the workers comp portion of our payor mix. Internal de novo clinic development and particularly prospective acquisition activity is strong."
>
> Larry McAfee, Chief Financial Officer, noted, "During the quarter, the Company produced excellent net cash flow based on record receivables collections with the average A/R days outstanding at 38 days as of June 30th."

30. On the same day, August 6, 2015 the Company filed its quarterly report on Form 10-Q for the 2015 fiscal second quarter. The Form 10-Q was signed by Defendants McAfee and Bates, and affirmed the financial results announced in the press release issued the same day. The Form 10-Q contained certifications pursuant to SOX, signed by Defendants Reading, McAfee, and Bates, substantially similar to the certification described in ¶20, *supra*.

31. On November 5, 2015, the Company issued a press release entitled "U.S. Physical Therapy Reports Third Quarter and First Nine Months 2015 Results." Therein, the Company, in relevant part, stated:

> U.S. Physical Therapy, Inc. (NYSE: USPH), a national operator of outpatient physical therapy clinics, today reported results for the quarter and nine months ended September 30, 2015.
>
> U.S. Physical Therapy's net income attributable to common shareholders prior to revaluation of redeemable non-controlling interests, net of tax ("operating results") increased 11.5% to $5.8 million for the third quarter of 2015 as compared to $5.2 million in the third quarter of 2014. Diluted earnings per share from operating results were $0.47 in the recent quarter as compared to $0.43 in the comparable 2014 period.

U.S. Physical Therapy's operating results for the first nine months of 2015 were $16.3 million, an increase of 2.6% as compared to $15.9 million in the first nine months of 2014. Diluted earnings per share from operating results were $1.32 in the first nine months of 2015 and $1.30 in the comparable 2014 period.

**Third Quarter 2015 Compared to Third Quarter 2014**

- Net revenues increased 8.1% from $77.7 million in the third quarter of 2014 to $84.0 million in the third quarter of 2015, due to an increase in total patient visits of 8.7% from 719,300 to 782,100 offset by a decrease in the average net revenue per visit to $105.04 for the 2015 third quarter from $105.92 for the 2014 third quarter. Net revenues for new clinics opened or acquired in the past 12 months was $5.4 million.

- Total clinic operating costs were $65.2 million, or 77.5% of net revenues, in the third quarter of 2015, as compared to $59.0 million, or 75.9% of net revenues, in the 2014 period. The increase was primarily attributable to $5.1 million in operating costs of new clinics opened or acquired in the past 12 months. Total clinic salaries and related costs, including those from new clinics, were 55.4% of net revenues in the recent quarter versus 53.8% in the 2014 period. Included in salaries and related costs in the 2015 quarter is $230,000 of compensation and severance costs for employee terminations as part of the Company's previously announced cost-cutting plan. Rent, clinic supplies, contract labor and other costs as a percentage of net revenues were 20.7% for both periods. The provision for doubtful accounts as a percentage of net revenues was 1.3% in 2015 period and 1.4% in the 2014 period.

- The gross margin for the third quarter of 2015 was $18.9 million or 22.5%, as compared to $18.8 million or 24.1% in the 2014 period.

- Corporate office costs were $6.9 million in the third quarter of 2015 as compared to $7.5 million in the 2014 third quarter. Corporate office costs were 8.2% of net revenues in the 2015 third quarter compared to 9.6% of net revenues in the 2014 period.

- Operating income for the recent quarter was $11.9 million compared to $11.3 million in the 2014 third quarter.

- Interest expense was $0.3 million in the third quarter of 2015 and $0.2 million in the third quarter of 2014.

- The provision for income taxes for the 2015 period was $3.7 million and for the 2014 period $3.6 million. The provision for income taxes as a percentage of income before taxes less net income attributable to non-controlling interest was 38.6% in the 2015 third quarter and 41.0% in the 2014 third quarter. The 2015 third quarter includes an adjustment of the

2015 expected annual tax rate to 39.5% from 40.0% based on an analysis of the 2015 results inclusive of non-deductible tax items.

- Net income attributable to non-controlling interests was $2.2 million in both periods.

- The operating results for the three months ended September 30, 2015 was $5.8 million and $5.2 million in the 2014 period. Diluted earnings per share from operating results were $0.47 in the 2015 period and $0.43 in the 2014 period.

- Same store visits increased 3.3% for de novo and acquired clinics open for one year or more and same store revenue increased 2.5% as the average net rate per visit decreased by $0.84.

**Nine Months 2015 Compared to Nine Months 2014**

- Net revenues increased 8.4% from $225.7 million in the first nine months of 2014 to $244.6 million in the first nine month of 2015, due to an increase in total patient visits of 9.1% from 2,081,900 to 2,271,900 offset by a decrease in the average net revenue per visit to $105.38 for the current period of 2015 from $106.18 for the 2014 period. Net revenues from new clinics opened or acquired in the past 12 months was $10.3 million.

- Total clinic operating costs were $187.7 million, or 76.8% of net revenues, in the first nine months of 2015, as compared to $168.5 million, or 74.6% of net revenues, in the 2014 period. The increase includes $9.6 million in operating costs of new clinics opened or acquired in the past 12 months. Total clinic salaries and related costs, including those from new clinics, were 54.8% of net revenues in the first nine months versus 53.1% in the 2014 period. Included in salaries and related costs in the 2015 period is $230,000 of compensation and severance costs for employee terminations as part of the Company's previously announced cost-cutting plan. Rent, clinic supplies, contract labor and other costs as a percentage of net revenues were 20.6% in the recent period versus 20.2% in the 2014 period. The provision for doubtful accounts as a percentage of net revenues was 1.3% in the 2015 period and 1.4% in the 2014 period.

- The gross margin for the first nine months of 2015 was $56.9 million or 23.2%, as compared to $57.2 million or 25.4% in the 2014 period.

- Corporate office costs were $22.2 million in the first nine months of 2015 and in the 2014 period. Corporate office costs were 9.1% of net revenues in the 2015 first nine months as compared to 9.8% of net revenues in the 2014 period.

- Operating income for the first nine months of 2015 was $34.7 million

compared to $35.0 million in the 2014 first nine months.

- Interest expense was $0.8 million in both periods.

- The provision for income taxes for the 2015 period was $10.6 million and for the 2014 period was $11.0 million. The provision for income taxes as a percentage of income before taxes less net income attributable to non-controlling interest was 39.5% in the 2015 first nine months and 41.0% in the 2014 first nine months.

- Net income attributable to non-controlling interests was $7.0 million in the nine months of 2015 as compared to $7.3 million in the year earlier period.

- The operating results for the nine months ended September 30, 2015 was $16.3 million compared to $15.9 million in the nine months ended September 30, 2014. Diluted earnings per share from operating results were $1.32 in the 2015 and $1.30 in the 2014 period.

- Same store visits increased 4.0% for de novo and acquired clinics open for one year or more and same store revenue increased 3.5%. The average net rate per visit decreased by $0.54.

> Chris Reading, Chief Executive Officer, said, "The Company's total patient volume remains solid. In the third quarter we worked to better align staffing levels at some of our partnerships with their clinics' average daily patient volumes. Our average net rate improved in the third quarter from the second quarter. Our newly acquired partnerships are doing well. Our organic de novo clinic openings have been strong these past few months and we are on track for another good development year overall."

32. On the same day, November 5, 2015 the Company filed its quarterly report on Form 10-Q for the 2015 fiscal third quarter. The Form 10-Q was signed by Defendants McAfee and Bates, and affirmed the financial results announced in the press release issued the same day. The Form 10-Q contained certifications pursuant to SOX, signed by Defendants Reading, McAfee, and Bates, substantially similar to the certification described in ¶20, *supra*.

33. On March 3, 2016, the Company issued a press release entitled "U.S. Physical Therapy Reports Record Earnings." Therein, the Company, in relevant part, stated:

> U.S. Physical Therapy, Inc. (NYSE: USPH), a national operator of outpatient physical therapy clinics, today reported results for the fourth quarter and year ended December 31, 2015.
>
> In the fourth quarter of 2015, U.S. Physical Therapy's net income attributable to

common shareholders from continuing operations prior to revaluation of redeemable non-controlling interests, net of tax ("operating results") increased by 20.4% to $6.0 million as compared to approximately $5.0 million in the fourth quarter of 2014. Diluted earnings per share from operating results rose to $0.48 in the recent quarter as compared to $0.41 in the comparable 2014 period.

For the year 2015, U.S. Physical Therapy's operating results increased by 6.8% to $22.3 million as compared to approximately $20.9 million for the 2014 year. Diluted earnings per share from operating results rose to $1.80 in 2015 as compared to $1.71 in 2014.

**Fourth Quarter 2015 Compared to Fourth Quarter 2014**

- Net revenues increased 9.2% from $79.4 million in the fourth quarter of 2014 to $86.7 million in the fourth quarter of 2015, due to an increase in patient visits of 9.7% from 736,900 to 808,300 offset by a decrease in the average net revenue per visit of $0.78 to $105.01 from $105.79.

- Total clinic operating costs were $65.2 million, or 75.2% of net revenues, in the fourth quarter of 2015, as compared to $60.5 million, or 76.1% of net revenues, in the 2014 period. Of the dollar increase, $5.5 million was attributable to operating costs of new clinics opened or acquired in 2015 as operating costs at other clinics were reduced. Total clinic salaries and related costs, including those from new clinics, were 53.6% of net revenues in the recent quarter versus 54.9% in the 2014 period. Rent, clinic supplies, contract labor and other costs as a percentage of net revenues were 20.3% for the recent quarter versus 19.7% in the 2014 period. The provision for doubtful accounts as a percentage of net revenues was 1.2% for the 2015 period and 1.3% in the 2014 period.

- The gross margin for the fourth quarter of 2015 increased by 13.5% to $21.5 million from $18.9 million in the fourth quarter of 2014. The gross margin percentage increased to 24.8% for the 2015 period as compared to 23.9% for the 2014 period.

- Corporate office costs were $8.9 million in the fourth quarter of 2015 as compared to $8.2 million in the 2014 fourth quarter. Corporate office costs as a percentage of net revenues were 10.3% for both periods in 2015 and 2014.

- Operating income for the recent quarter increased by 17.3% to $12.6 million as compared to $10.8 million in the 2014 fourth quarter.

- Interest expense was $0.3 million for both the periods in 2015 and 2014.

- The provision for income taxes for the 2015 quarter was $4.0 million and for the 2014 quarter $3.2 million. The provision for income taxes as a percentage of income before taxes less net income attributable to non-

controlling interest was 40.1% in the 2015 period and 39.4% in the 2014 period.

- Net income attributable to non-controlling interests was $2.4 million in the recent quarter as compared to $2.3 million in the 2014 period.

- Net income attributable to common shareholders for the three months ended December 31, 2015 increased by 20.4% to $6.0 million compared to approximately $5.0 million for the three months ended December 31, 2014. Diluted earnings per share from operating results were $0.48 for the 2015 quarter and $0.41 for the 2014 quarter.

- Same store visits increased 4.2% for de novo and acquired clinics open for one year or more while same store revenue increased 3.4% as the average net rate per visit decreased by $0.76.

**Year 2015 Compared to Year 2014**

- Net revenues increased 8.6% from $305.1 million in 2014 to $331.3 million in 2015, due to an increase in patient visits of 9.3% from 2,818,800 to 3,080,200 offset by a decrease in the average net revenue per visit of $0.80 to $105.28 for the past year from $106.08 in 2014.

- Total clinic operating costs were $252.9 million or 76.3% of net revenues for 2015, as compared to $228.9 million or 75.0% of net revenues, for 2014. The dollar increase included $13.9 million in operating costs of new clinics opened or acquired in 2015. Of the remaining increase, $8.1 million was from clinics added throughout 2014. Total clinic salaries and related costs were 54.5% of net revenues in 2015 versus 53.6% in 2014. Rent, clinic supplies, contract labor and other costs as a percentage of net revenues were 20.5% for the past year versus 20.1% in 2014. The provision for doubtful accounts as a percentage of net revenues was 1.3% for 2015 and 2014.

- The gross margin for 2015 increased to $78.4 million from $76.2 million in 2014. The gross margin percentage was 23.7% in 2015 as compared to 25.0% in 2014.

- Corporate office costs were $31.1 million for 2015 as compared to $30.4 million for 2014. Corporate office costs were 9.4% of net revenues for 2015 and 10.0% for 2014.

- Operating income increased 3.3% to $47.3 million in 2015 as compared to $45.8 million in 2014.

- Interest expense was $1.0 million in 2015 and $1.1 million in 2014.

- The provision for income taxes for 2015 was $14.7 million and for 2014 it

was $14.3 million. The provision for income taxes as a percentage of income before taxes less net income attributable to non-controlling interest was 39.7% in 2015 and 40.6% in 2014. The 2015 provision for taxes includes an adjustment of $147,000 due to the reconciliation of the 2014 federal and state tax returns to our book provision and $223,000 in 2014 for the 2013 reconciliation.

- Net income attributable to non-controlling interests was $9.4 million in 2015 as compared to $9.6 million in 2014.

- Net income attributable to common shareholders for the year ended December 31, 2015 increased 6.8% to $22.3 million as compared to $20.9 million for the year ended December 31, 2014. Diluted earnings per share from operating results rose to $1.80 for 2015 versus $1.71 for 2014.

- Same store visits increased 4.8% for de novo and acquired clinics open for one year or more and same store revenue increased 4.2% as the average net rate per visit decreased by $0.61.

Chris Reading, Chief Executive Officer, said, "I am very proud of our entire team for their efforts culminating in a strong finish to 2015. Same store volume and average visits per day per clinic were very healthy both for the year as well as the recent quarter." Larry McAfee, Chief Financial Officer, noted, "Despite it being what is normally a seasonally slower quarter, earnings in the fourth quarter of 2015 were amongst the highest of any quarter in the Company's 26 year history."

34. On March 4, 2016 the Company filed its annual report on Form 10-K for the 2015 fiscal year. The Form 10-K was signed by Defendants McAfee and Bates, and reaffirmed the financial results announced in the press release issued on March 3, 2016. The Form 10-K contained certifications pursuant to SOX, signed by Defendants Reading, McAfee, and Bates, substantially similar to the certification described in ¶20, *supra*.

35. On May 5, 2016, the Company issued a press release entitled "U.S. Physical Therapy Reports Record First Quarter Results." Therein, the Company, in relevant part, stated:

U.S. Physical Therapy, Inc. ("USPH") (NYSE: USPH), a national operator of outpatient physical therapy clinics, today reported results for the first quarter ended March 31, 2016.

USPH's net income attributable to common shareholders, net of tax ("operating results") increased 27.9% to $5.3 million for the first quarter of 2016 as compared to $4.2 million for the first quarter of 2015. Diluted earnings per share from operating results rose to $0.43 from $0.34.

**First Quarter 2016 Compared to First Quarter 2015**

- Net revenues increased by $9.7 million or 12.5% from $77.2 million in the first quarter of 2015 to $86.9 million in the first quarter of 2016, due to an increase in total patient visits of 13.4% from 712,900 to 808,300 and offset by a decrease in the average net revenue per visit to $105.22 from $106.34. Net revenues from new clinics opened or acquired in the past 12 months was $5.8 million.

- Total clinic operating costs were $66.4 million, or 76.4% of net revenues, in the first quarter of 2016, as compared to $60.4 million, or 78.2% of net revenues, in the 2015 period. Most of the dollar expense increase was attributable to $4.9 million in operating costs of new clinics opened or acquired in the past 12 months. Total clinic salaries and related costs, including those from new clinics, were 55.0% of net revenues in the recent quarter versus 55.7% in the 2015 period. Rent, clinic supplies, contract labor and other costs as a percentage of net revenues were 20.1% for the recent quarter versus 21.1% in the 2015 period. The provision for doubtful accounts as a percentage of net revenues was 1.3% for the 2016 and 2015 periods.

- The gross margin for the first quarter of 2016 was $20.5 million, or 23.6%, as compared to $16.8 million, or 21.8%, for the 2015 quarter.

- Corporate office costs were $9.0 million in the first quarter of 2016 compared to $7.7 million in the 2015 first quarter. Corporate office costs were 10.4% of net revenues for the 2016 quarter compared to 9.9% of net revenues for the 2015 period.

- Operating income for the recent quarter increased 25.1% to $11.5 million compared to $9.2 million in the 2015 first quarter.

- Interest expense was $0.3 million in the first quarter of 2016 and 2015.

- The provision for income taxes for the 2016 period was $3.5 million and for the 2015 quarter was $2.8 million. The provision for income taxes as a percentage of income before taxes less net income attributable to non-controlling interest was 39.8% in the 2016 first quarter and 40.0% in the 2015 first quarter.

- Net income attributable to non-controlling interests was $2.4 million in the recent quarter as compared to $2.0 million in the year earlier period.

- Operating results attributable to common shareholders for the three months ended March 31, 2016 were $5.3 million and $4.2 million in the 2015 period. Diluted earnings per share from operating results were $0.43 for the 2016 period and $0.34 for the 2015 period.

- Same store visits increased 6.7% for de novo and acquired clinics open for one year or more and same store revenue increased 4.9% as the average net rate per visit decreased by $1.84 or 1.7%.

**Other Financial Measures**

In the first quarter of 2016 the Company's Adjusted EBITDA grew by 24.6% to $12.5 million from $10 million in the 2015 first quarter. Operating results prior to equity-based compensation (a non-cash expense), increased by 27.4% to $6.1 million versus $4.8 million, and on a per share basis grew to $0.49 from $0.39. (See schedule on page 8.)

Chris Reading, Chief Executive Officer, said, "I am very proud of our entire team who have worked hard to produce great results for our patients, physicians, industry customers and shareholders. The end result of these efforts produced record same store visit growth this quarter of 6.7%. Our partners continue to push to deliver meaningful growth, underpinned with great care, while maintaining a close eye on appropriate cost control."

Larry McAfee, Chief Financial Officer, noted, "Average visits per clinic per day in the first quarter this year were 24.7, an increase of 7.9% as compared to 22.9 in the first quarter last year."

36. On May 6, 2016, the Company filed its quarterly report on Form 10-Q for the 2016 fiscal first quarter. The Form 10-Q was signed by Defendants McAfee and Bates, and reaffirmed the financial results announced in the press release issued on May 5, 2016. The Form 10-Q contained certifications pursuant to SOX, signed by Defendants Reading, McAfee, and Bates substantially similar to the certification described in ¶20, *supra*.

37. On August 4, 2016, the Company issued a press release entitled “U.S. Physical Therapy Reports Record Quarter and Six Months Results.” Therein, the Company, in relevant part, stated:

U.S. Physical Therapy, Inc. (“USPH”) (NYSE: USPH), a national operator of outpatient physical therapy clinics, today reported results for the quarter and six months ended June 30, 2016.

USPH’s net income attributable to common shareholders from operations prior to revaluation of redeemable non-controlling interests, net of tax (“operating results”) increased 12.2% to $7.1 million for the second quarter of 2016 as compared to $6.3 million for the second quarter of 2015. Diluted earnings per share from operating results were $0.57 in the recent quarter as compared to $0.51 in the comparable 2015 period. The second quarter of 2016 was the most

profitable quarter in the Company's history.

USPH's operating results for the first six months of 2016 increased 18.4% to $12.4 million as compared to $10.5 million in the first six months of 2015. Diluted earnings per share from operating results were $0.99 in the first half of 2016 as compared to $0.85 in the comparable 2015 period.

**Second Quarter 2016 Compared to Second Quarter 2015**

- Net revenues increased $7.1 million or 8.6% from $83.3 million in the second quarter of 2015 to $90.4 million in the second quarter of 2016, due to an increase in total patient visits of 8.1% from 776,900 to 840,000 and an increase in the average net revenue per visit to $105.27 from $104.85. Net revenues from new clinics opened or acquired in the 12 months prior to June 30, 2016 was $5.5 million.

- Total clinic operating costs were $67.4 million, or 74.5% of net revenues, in the second quarter of 2016, as compared to $62.1 million, or 74.6% of net revenues, in the 2015 period. Of the $5.3 million expense increase $4.3 million was attributable to operating costs of new clinics opened or acquired in the 12 months prior to June 30, 2016. Total clinic salaries and related costs, including those from new clinics, were 54.0% of net revenues in the recent quarter versus 53.3% in the 2015 period. Rent, clinic supplies, contract labor and other costs as a percentage of net revenues were 19.4% for the recent quarter versus 20.0% in the 2015 period. The provision for doubtful accounts as a percentage of net revenues was 1.1% for the 2016 and 1.3% in the 2015 periods.

- The gross margin for the second quarter of 2016 increased 9.1% to $23.0 million, or 25.5% of revenue, as compared to $21.1 million, or 25.4% of revenue, for the 2015 second quarter.

- Corporate office costs were $8.0 million in the second quarter of 2016 compared to $7.6 million in the 2015 second quarter. Corporate office costs were 8.9% of net revenues for the 2016 quarter compared to 9.1% of net revenues for the 2015 period.

- Operating income for the second quarter of 2016 increased 11.0% to $15.0 million compared to $13.5 million in the 2015 second quarter.

- Interest expense was $0.3 million in the second quarter of 2016 and $0.2 million in the second quarter of 2015.

- The provision for income taxes for the 2016 period was $4.7 million and for the 2015 period was $4.2 million. The provision for income taxes as a percentage of income before taxes less net income attributable to non-controlling interest was 39.8% in the 2016 second quarter and 40.0% in

the 2015 second quarter.

- Net income attributable to non-controlling interests was $3.0 million in the recent quarter as compared to $2.8 million in the year earlier period.

- Operating results attributable to common shareholders for the three months ended June 30, 2016 increased 12.2% to $7.1 million versus $6.3 million for the 2015 period. Diluted earnings per share from operating results were $0.57 for the 2016 period and $0.51 for the 2015 period.

- Same store visits increased 2.1% for de novo and acquired clinics open for one year or more and same store revenue increased 1.5% as the average net rate per visit decreased by $0.69 or 0.7%.

**First Six Months 2016 Compared to First Six Months 2015**

- Net revenues increased 10.5% from $160.5 million in the first six months of 2015 to $177.3 million in the first six months quarter of 2016, due to an increase in total patient visits of 10.6% from 1,489,700 to 1,648,700 and offset by a decrease in the average net revenue per visit to $105.25 from $105.56. Net revenues from new clinics opened or acquired in the past 12 months was $8.7 million.

- Total clinic operating costs were $133.8 million, or 75.4% of net revenues, in the first six months of 2016, as compared to $122.5 million, or 76.3% of net revenues, in the 2015 period. Of the $11.3 million expense increase $7.0 million was attributable to operating costs of new clinics opened or acquired in the past 12 months. Total clinic salaries and related costs, including those from new clinics, were 54.5% of net revenues for both the 2016 and 2015 periods. Rent, clinic supplies, contract labor and other costs as a percentage of net revenues were 19.8% for the 2016 first six months versus 20.6% in the 2015 period. The provision for doubtful accounts as a percentage of net revenues was 1.2% for the 2016 and 1.3% in the 2015 period.

- The gross margin for the first six months of 2016 increased 14.7% to $43.6 million, or 24.6% or revenue, as compared to $38.0 million, or 23.7% of revenue, for the 2015 period.

- Corporate office costs were $17.0 million in the first six months of 2016 compared to $15.3 million in the 2015 period. Corporate office costs were 9.6% of net revenues for the 2016 first six months compared to 9.5% of net revenues for the 2015 period.

- Operating income for the first six months of 2016 rose 16.7% to $26.5 million compared to $22.7 million in the 2015 first six months.

- Interest expense was $0.6 million in the first six months of 2016 and $0.5

million in the first six months of 2015.

- The provision for income taxes for the 2016 period was $8.2 million and for the 2015 period was $7.0 million. The provision for income taxes as a percentage of income before taxes less net income attributable to non-controlling interest was 39.8% in the 2016 first six months and 40.0% in the 2015 first six months.

- Net income attributable to non-controlling interests was $5.3 million for the six months of 2016 as compared to $4.8 million in the year earlier period.

- Operating results attributable to common shareholders for the six months ended June 30, 2016 rose 18.4% to $12.4 million as compared to $10.5 million for the six months ended June 30, 2015. Diluted earnings per share from operating results were $0.99 for the 2016 period and $0.85 for the 2015 period.

- Same store visits increased 4.9% for de novo and acquired clinics open for one year or more and same store revenue increased 3.7% as the average net rate per visit decreased by $1.17 or 1.1%.

**Other Financial Measures**

In the second quarter of 2016, the Company's Adjusted EBITDA grew by 11.2% to $15.4 million from $13.8 million in the 2015 second quarter. In the first six months of 2016, the Company's Adjusted EBITDA grew by 16.8% to $27.8 million from $23.8 million in the 2015 first six months.

In the second quarter of 2016, operating results prior to equity-based compensation (a non-cash expense), increased by 11.3% to $7.8 million versus $7.0 million for the 2015 second quarter, and on a per share basis grew to $0.63 from $0.57. In the first six months of 2016, operating results prior to equity-based compensation, increased by 17.8% to $13.9 million versus $11.8 million for the 2015 first six months, and on a per share basis grew to $1.11 from $0.95. (See schedule on page 10.)

**Management's Comments**

Chris Reading, Chief Executive Officer, said, "Our team produced a record earning's quarter underpinned by solid visits, referrals and clinic growth. We are on a good pace thus far and expect to continue our work to produce a solid year for our shareholders while further positioning our Company for future growth and success."

Larry McAfee, Chief Financial Officer, noted, "The Company's debt was reduced by $10,283,000 or approximately 18% in the second quarter as net cash flow from operations remains strong."

**U.S. Physical Therapy Declares Quarterly Dividend**

The third quarterly dividend of 2016 for $.17 per share will be paid on September 2, 2016 to shareholders of record as of August 19, 2016.

**Updated Management 2016 Earnings Guidance**

Management currently expects the Company's results for the year 2016 to be in the range of $23.7 million to $24.5 million for operating results and $1.90 to $1.96 in diluted earnings per share. Please note that management's guidance range represents projected operating results from existing operations but excludes future acquisitions. The annual guidance figures may not be updated unless there is a material development that causes management to believe that operating results will be significantly outside the given range.

38. On August 5, 2016, the Company filed its quarterly report on Form 10-Q for the 2016 fiscal second quarter. The Form 10-Q was signed by Defendants McAfee and Bates, and reaffirmed the financial results announced in the press release issued on August 4, 2016. The Form 10-Q contained certifications pursuant to SOX, signed by Defendants Reading, McAfee, and Bates, substantially similar to the certification described in ¶20, *supra*.

39. On November 3, 2016, the Company issued a press release entitled "U.S. Physical Therapy Reports Third Quarter and Nine Months Results." Therein, the Company, in relevant part, stated:

U.S. Physical Therapy, Inc. ("USPH") (NYSE: USPH), a national operator of outpatient physical therapy clinics, today reported results for the quarter and nine months ended September 30, 2016.

USPH's net revenues in the third quarter of 2016 increased 5.1% to $88.3 million from $84.0 million in the third quarter of 2015. Income before taxes including non-controlling interests was $11.8 million as compared to $11.7 million in the comparable 2015 period. Due primarily to a higher estimated accrued tax rate of 39.8% for the recent quarter as compared to 38.6% in the third quarter of 2015, the income attributable to common shareholders from operations prior to revaluation of redeemable non-controlling interests, net of tax ("operating results") declined slightly to $5.7 million from $5.8 million. Diluted earnings per share from operating results was $0.46 in the third quarter of 2016 as compared to $0.47 in the third quarter of 2015.

USPH's net revenues for the first nine months of 2016 increased 8.6% to $265.7 million from $244.6 million in the first nine months of 2015. USPH's operating results for the first nine months of 2016 increased 11.2% to $18.1 million as

compared to $16.3 million in the first nine months of 2015. Diluted earnings per share from operating results were $1.45 for the 2016 period as compared to $1.32 in the comparable 2015 period.

**<u>Third Quarter 2016 Compared to Third Quarter 2015</u>**

- Net revenues increased $4.3 million or 5.1% from $84.0 million in the third quarter of 2015 to $88.3 million in the third quarter of 2016, due to an increase in total patient visits of 5.2% from 782,100 to 822,500 and an increase in the average net revenue per visit to $105.06 for the 2016 third quarter from $105.04 for the 2015 third quarter. Net revenues from new clinics opened or acquired in the 12 months prior to September 30, 2016 was $5.2 million.

- Total clinic operating costs were $68.7 million, or 77.7% of net revenues, in the third quarter of 2016, as compared to $65.2 million, or 77.5% of net revenues, in the 2015 period. Of the net $3.5 million expense increase, $4.1 million was attributable to operating costs of new clinics opened or acquired in the 12 months prior to September 30, 2016 offset by a decrease of $0.6 million in operating costs of clinics opened or acquired prior to September 30, 2015. Total clinic salaries and related costs, including those from new clinics, were 56.4% of net revenues in the recent quarter versus 55.4% in the 2015 period. Rent, clinic supplies, contract labor and other costs as a percentage of net revenues were 20.2% for the recent quarter versus 20.7% in the 2015 period. The provision for doubtful accounts as a percentage of net revenues was 1.0% for the 2016 and 1.3% in the 2015 period.

- The gross margin for the third quarter of 2016 was $19.7 million or 22.3%, as compared to $18.9 million, or 22.5% in the 2015 third quarter.

- Corporate office costs were $7.6 million in the third quarter of 2016 compared to $6.9 million in the 2015 third quarter. Corporate office costs were 8.6% of net revenues for the 2016 third quarter compared to 8.2% of net revenues for the 2015 period.

- Operating income for the third quarter of 2016 was $12.1 million or 13.6% compared to $11.9 million or 14.2% in the 2015 third quarter.

- Interest expense was $0.3 million in the third quarter of 2016 and in the third quarter of 2015.

- The provision for income taxes for the 2016 period was $3.8 million and for the 2015 period $3.7 million. The provision for income taxes as a percentage of income before taxes less net income attributable to non-controlling interest was 39.8% in the 2016 third quarter and 38.6% in the 2015 third quarter.

- Net income attributable to non-controlling interests was $2.3 million in the recent quarter as compared to $2.2 million in the year earlier period.

- Operating results attributable to common shareholders for the three months ended September 30, 2016 was $5.7 million versus $5.8 million for the 2015 period. Diluted earnings per share from operating results were $0.46 for the 2016 period and $0.47 for the 2015 period.

- Same store visits increased 1.2% for de novo and acquired clinics open for one year or more while same store revenue remained relatively the same as the average same store net rate per visit decreased by $1.16.

**First Nine Months 2016 Compared to First Nine Months 2015**

- Net revenues increased 8.6% from $244.6 million in the first nine months of 2015 to $265.7 million in the first nine months quarter of 2016, due to an increase in total patient visits of 8.8% from 2,271,900 to 2,470,800 and offset by a slight decrease in the average net revenue per visit to $105.19 from $105.38. Net revenues from new clinics opened or acquired in the past 12 months was $12.1 million.

- Total clinic operating costs were $202.5 million, or 76.2% of net revenues, in the first nine months of 2016, as compared to $187.7 million, or 76.8% of net revenues, in the 2015 period. Of the $14.7 million expense increase $9.4 million was attributable to operating costs of new clinics opened or acquired in the past 12 months. Total clinic salaries and related costs, including those from new clinics, were 55.1% of net revenues for the 2016 versus 54.8% in the 2015 period. Rent, clinic supplies, contract labor and other costs as a percentage of net revenues were 19.9% for the 2016 first nine months versus 20.6% in the 2015 period. The provision for doubtful accounts as a percentage of net revenues was 1.1% for the 2016 and 1.3% in the 2015 period.

- The gross margin for the first nine months of 2016 increased 11.2% to $63.2 million, or 23.8% of revenue, as compared to $56.9 million, or 23.2% of revenue, for the 2015 period.

- Corporate office costs were $24.6 million in the first nine months of 2016 compared to $22.2 million in the 2015 period. Corporate office costs were 9.3% of net revenues for the 2016 first nine months compared to 9.1% of net revenues for the 2015 period.

- Operating income for the first nine months of 2016 rose 11.2% to $38.6 million compared to $34.7 million in the 2015 first nine months.

- Interest expense was $1.0 million in the first nine months of 2016 and $0.8 million in the first nine months of 2015.

- The provision for income taxes for the 2016 period was $12.0 million and for the 2015 period was $10.6 million. The provision for income taxes as a percentage of income before taxes less net income attributable to non-controlling interest was 39.8% in the 2016 first nine months and 39.5% in the 2015 first nine months.

- Net income attributable to non-controlling interests was $7.6 million for the nine months of 2016 as compared to $7.0 million in the year earlier period.

- Operating results attributable to common shareholders for the nine months ended September 30, 2016 rose 11.2% to $18.1 million as compared to $16.3 million for the nine months ended September 30, 2015. Diluted earnings per share from operating results were $1.45 for the 2016 period and $1.32 for the 2015 period.

- Same store visits increased 3.7% for de novo and acquired clinics open for one year or more and same store revenue increased 3.0% as the average net rate per visit decreased by $0.82.

**Other Financial Measures**

In the third quarter of 2016, the Company's Adjusted EBITDA was $13.1 million and $12.8 million in the 2015 third quarter. In the first nine months of 2016, the Company's Adjusted EBITDA grew by 11.7% to $40.9 million from $36.7 million in the 2015 first nine months.

In the third quarter of 2016 and 2015, operating results prior to equity-based compensation (a non-cash expense) was $6.5 million for both, and on a per share basis was $0.52 as compared to $0.53, respectively. In the first nine months of 2016, operating results prior to equity-based compensation, increased by 11.1% to $20.4 million versus $18.3 million for the 2015 first nine months, and on a per share basis grew to $1.63 from $1.48. (See schedule on page 10.)

**Management's Comments**

Chris Reading, Chief Executive Officer, said about the recent quarter, "While we got off to a slower than expected start in July, visits rebounded sequentially in August and September. Additionally, our development activity is strong and we expect to finish this year with very solid de novo as well as acquisition-related growth."

40. On November 4, 2016, the Company filed its quarterly report on Form 10-Q for the 2016 fiscal third quarter. The Form 10-Q was signed by Defendants McAfee and Bates, and reaffirmed the financial results announced in the press release issued on November 3, 2016. The Form 10-Q contained certifications pursuant to SOX, signed by Defendants Reading, McAfee,

and Bates, substantially similar to the certification described in ¶20, *supra*.

41. The above statements identified in ¶¶18-40 were materially false and/or misleading, as well as failed to disclose material adverse facts about the Company's business, operations, and prospects. Specifically, Defendants failed to disclose: (1) that the Company had a material weakness in its internal controls over accounting and financial reporting; (2) that the Company improperly accounted for redeemable non-controlling interests of acquired partnerships in violation of GAAP; (3) that, as a result, the Company's financial statements for the years ended December 31, 2015 and 2014, and all quarters within 2014 and 2015, and the first three quarters of 2016 contained material errors; and (4) that, as a result of the foregoing, Defendants' statements about USPh's business, operations, and prospects, were false and misleading and/or lacked a reasonable basis.

**<u>Disclosures at the End of the Class Period</u>**

42. On March 16, 2017, the Company disclosed that its historical accounting for redeemable non-controlling interests of acquired partnerships was incorrect, and that the error would result in the reporting of a material weakness in internal controls over financial reporting. The Company further disclosed that, because of the error, the Company's previously issued financial statements for the years ended December 31, 2015 and 2014, and all quarters within 2014 and 2015, and the first three quarters of 2016 should no longer be relied upon, and that the Company would restate certain figures for the affected periods. In greater part, the Company stated:

> In connection with the preparation of the Company's 2016 annual financial statements, it was determined that the Company's historical accounting for redeemable non-controlling interests of acquired partnerships was incorrect due to the fact that those partnership agreements contain a provision that makes the non-controlling interests mandatorily redeemable and, thus incorrectly classified. This error did not affect any of the Company's de novo partnership agreements. Management has concluded that this error will result in the reporting of a material weakness in internal controls over financial reporting as they relate to this issue and that, as a result, ineffective internal controls over financial reporting. The error will require the restatement of previously issued financial statements. Non-controlling interests refer to the minority limited partnership interests (or limited liability company interests) held by the Company's non- controlling partners ("NC Partner") in the limited partnership entities (or limited liability company

entities) through which the Company owns and operates its clinics.

Redeemable non-controlling interests have been historically accounted for as follows:

For any acquired NC partner agreement that was entered into on or after January 1, 2009, at the expiration of the specified holding period (i.e., the earliest time when the acquired NC Partner could require the Company to purchase its interest) set forth in the respective limited partnership agreement, the Company reclassified the recorded value of the non-controlling interest to temporary equity on the Company's consolidated balance sheet in the section labeled - *Redeemable non-controlling interests* ("RNCI"). The recorded value was the fair value of the non-controlling interest on the date the Company acquired a controlling interest in the partnership ("acquisition date") adjusted for any earnings attributable and distributions made subsequent to the acquisition date. Then, and in any subsequent reporting period that the Company deemed it probable that the acquired NC Partner would assert their redemption rights or the Company otherwise reached an agreement to purchase some or all of the acquired NC Partner interest, the redeemable non-controlling interest was adjusted to its then current redemption value and the redemption value was further adjusted in each reporting period thereafter until purchased by the Company. All adjustments were charged to additional paid-in capital and were not reflected in the Company's consolidated statements of net income. Although the adjustments were not reflected in the statements of net income, applicable accounting rules required that the Company reflect the charge in the earnings per share calculation. Quarterly, the Company assessed the probability that the redemption rights would be triggered by the acquired NC Partner and accounted for the redeemable non-controlling interests accordingly.

The correct accounting treatment for mandatorily redeemable non-controlling interests is as follows:

On the date the Company acquires a controlling interest in a partnership, the fair value of the non-controlling interest is recorded in the long-term liabilities section of the consolidated balance sheet under the caption – *Mandatorily redeemable non-controlling interests*. Then, in each reporting period thereafter until purchased by the Company, the redeemable non-controlling interest is adjusted to its then current redemption value, based on the predetermined formula defined in the respective partnership agreement. The Company intends to reflect the correct accounting treatment in its consolidated financial statements of net income by recording the adjustments to other income and expense in the caption - *Interest expense – revaluation of mandatorily redeemable non-controlling interests*. The non-cash adjustments will not affect the Company's reported cash flows or EBITDA, a non-GAAP financial measure.

This error, and the resulting restatement to correct prior period accounting methodology, will be accomplished through non-cash adjustments to previously reported income statements and balance sheet line items. This correction has no

impact on current or previously reported cash balances or net cash flows provided by or used in operating activities or EBITDA (earnings before interest, taxes, depreciation and amortization). Further, all redemptions of non-controlling interests will continue to be made consistent with historical practices and pursuant to the terms of existing partnership agreements.

The Company's board of directors has concluded on March 15, 2017, that its consolidated financial statements and related footnotes for the years ended December 31, 2015 and 2014, and all quarters within 2014 and 2015, and the first three quarters of 2016 should no longer be relied upon.

The Company, in its upcoming Annual Report on Form 10-K for the year ended December 31, 2016, intends to correct its consolidated financial statements for the affected years, which will include a cumulative adjustment to the beginning balances of the earliest balance sheets presented. In addition, any prior year information within footnotes, including quarterly data affected by this correction, will be restated within the 2016 Annual Report. Further, the Company will include a "Selected Financial Data" table that will present restated numbers for any affected periods. Based on the information regarding prior years that the Company intends to include in its 2016 Annual Report on Form 10-K, the Company does not intend to file amendments to any prior Annual Reports on Form 10-K or any Form 10-Qs for periods through September 30, 2016.

To complete the restatements, the Company will file a Notification of Late Filing on Form 12b-25 in order to obtain an additional fifteen calendar days to file the Company's Annual Report on Form 10-K for the year ended December 31, 2016, which is expected to be filed on or before March 31, 2017.

The Audit Committee of the Board had discussed the matters disclosed in this Current Report on Form 8-K with the Company's independent registered public accounting firm.

43. On this news, the price of USPh common stock fell $3.85 per share, or 5.2%, to close at $69.90 per share on March 16, 2017, on unusually heavy trading volume. The stock price continued to decline in the following trading days, falling $1.75 per share (2.5%) on March 17, 2017, $0.25 per share (0.3%) on March 20, 2017, and $3.15 per share (4.6%) on March 21, 2017, to close at $64.75 per share on March 21, 2017.

**USPH'S VIOLATION OF GAAP RULES
IN ITS FINANCIAL STATEMENTS
<u>FILED WITH THE SEC</u>**

44. These financial statements and the statements about the Company's financial results were false and misleading, as such financial information was not prepared in conformity

with GAAP.

45. GAAP are those principles recognized by the accounting profession as the conventions, rules and procedures necessary to define accepted accounting practice at a particular time. Regulation S-X (17 C.F.R. § 210.4-01(a)(1)) states that financial statements filed with the SEC which are not prepared in compliance with GAAP are presumed to be misleading and inaccurate. Regulation S-X requires that interim financial statements must also comply with GAAP, with the exception that interim financial statements need not include disclosure which would be duplicative of disclosures accompanying annual financial statements. 17 C.F.R. § 210.10-01(a).

46. The fact that USPh announced that it intends to restate certain of its financial statements, and informed investors that these financial statements should not be relied upon is an admission that they were false and misleading when originally issued (APB No.20, 7-13; SFAS No. 154, 25).

47. Given these accounting irregularities, the Company announced financial results that were in violation of GAAP and the following principles:

(a) The principle that "interim financial reporting should be based upon the same accounting principles and practices used to prepare annual financial statements" was violated (APB No. 28, 10);

(b) The principle that "financial reporting should provide information that is useful to present to potential investors and creditors and other users in making rational investment, credit, and similar decisions" was violated (FASB Statement of Concepts No. 1, 34);

(c) The principle that "financial reporting should provide information about the economic resources of USPH, the claims to those resources, and effects of transactions, events, and circumstances that change resources and claims to those resources" was violated (FASB Statement of Concepts No. 1, 40);

(d) The principle that "financial reporting should provide information about USPh's financial performance during a period" was violated (FASB Statement of Concepts No. 1, 42);

(e) The principle that "financial reporting should provide information about how management of USPh has discharged its stewardship responsibility to owners (stockholders) for the use of USPh resources entrusted to it" was violated (FASB Statement of Concepts No. 1, 50);

(f) The principle that "financial reporting should be reliable in that it represents what it purports to represent" was violated (FASB Statement of Concepts No. 2, 58-59);

(g) The principle that "completeness, meaning that nothing is left out of the information that may be necessary to insure that it validly represents underlying events and conditions" was violated (FASB Statement of Concepts No. 2, 79); and

(h) The principle that "conservatism be used as a prudent reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are adequately considered" was violated (FASB Statement of Concepts No. 2, 95).

48. The adverse information concealed by Defendants during the Class Period and detailed above was in violation of Item 303 of Regulation S-K under the federal securities law (17 C.F.R. §229.303).

## CLASS ACTION ALLEGATIONS

49. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a class, consisting of all persons and entities that acquired USPh's securities between May 8, 2014, and March 16, 2017, inclusive, and who were damaged thereby (the "Class"). Excluded from the Class are Defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their

legal representatives, heirs, successors, or assigns, and any entity in which Defendants have or had a controlling interest.

50. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, USPh's common stock actively traded on the NYSE. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are at least hundreds or thousands of members in the proposed Class. Millions of USPh shares were traded publicly during the Class Period on the NYSE. As of November 4, 2016, USPh had 12,521,926 shares of common stock outstanding. Record owners and other members of the Class may be identified from records maintained by USPh or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

51. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

52. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

53. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether the federal securities laws were violated by Defendants' acts as alleged herein;

(b) whether statements made by Defendants to the investing public during the Class Period omitted and/or misrepresented material facts about the business, operations, and prospects of USPh; and

(c) to what extent the members of the Class have sustained damages and the proper measure of damages.

54. A class action is superior to all other available methods for the fair and efficient

adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation makes it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

## UNDISCLOSED ADVERSE FACTS

55. The market for USPh's securities was open, well-developed and efficient at all relevant times. As a result of these materially false and/or misleading statements, and/or failures to disclose, USPh's securities traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired USPh's securities relying upon the integrity of the market price of the Company's securities and market information relating to USPh, and have been damaged thereby.

56. During the Class Period, Defendants materially misled the investing public, thereby inflating the price of USPh's securities, by publicly issuing false and/or misleading statements and/or omitting to disclose material facts necessary to make Defendants' statements, as set forth herein, not false and/or misleading. The statements and omissions were materially false and/or misleading because they failed to disclose material adverse information and/or misrepresented the truth about USPh's business, operations, and prospects as alleged herein.

57. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false and/or misleading statements about USPh's financial well-being and prospects. These material misstatements and/or omissions had the cause and effect of creating in the market an unrealistically positive assessment of the Company and its financial well-being and prospects, thus causing the Company's securities to be overvalued and artificially inflated at all relevant times. Defendants' materially false and/or misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's securities at

artificially inflated prices, thus causing the damages complained of herein when the truth was revealed.

**LOSS CAUSATION**

58. Defendants' wrongful conduct, as alleged herein, directly and proximately caused the economic loss suffered by Plaintiff and the Class.

59. During the Class Period, Plaintiff and the Class purchased USPh's securities at artificially inflated prices and were damaged thereby. The price of the Company's securities significantly declined when the misrepresentations made to the market, and/or the information alleged herein to have been concealed from the market, and/or the effects thereof, were revealed, causing investors' losses.

**SCIENTER ALLEGATIONS**

60. As alleged herein, Defendants acted with scienter since Defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and/or misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, the Individual Defendants, by virtue of their receipt of information reflecting the true facts regarding USPh, their control over, and/or receipt and/or modification of USPh's allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning USPh, participated in the fraudulent scheme alleged herein.

**APPLICABILITY OF PRESUMPTION OF RELIANCE**
**(FRAUD-ON-THE-MARKET DOCTRINE)**

61. The market for USPh's securities was open, well-developed and efficient at all relevant times. As a result of the materially false and/or misleading statements and/or failures to disclose, USPh's securities traded at artificially inflated prices during the Class Period. On February 27, 2017, the Company's stock price closed at a Class Period adjusted high of $77.95 per share. Plaintiff and other members of the Class purchased or otherwise acquired the

Company's securities relying upon the integrity of the market price of USPh's securities and market information relating to USPh, and have been damaged thereby.

62. During the Class Period, the artificial inflation of USPh's stock was caused by the material misrepresentations and/or omissions particularized in this Complaint causing the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false and/or misleading statements about USPh's business, prospects, and operations. These material misstatements and/or omissions created an unrealistically positive assessment of USPh and its business, operations, and prospects, thus causing the price of the Company's securities to be artificially inflated at all relevant times, and when disclosed, negatively affected the value of the Company stock. Defendants' materially false and/or misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's securities at such artificially inflated prices, and each of them has been damaged as a result.

63. At all relevant times, the market for USPh's securities was an efficient market for the following reasons, among others:

(a) USPh stock met the requirements for listing, and was listed and actively traded on the NYSE, a highly efficient and automated market;

(b) As a regulated issuer, USPh filed periodic public reports with the SEC and/or the NYSE;

(c) USPh regularly communicated with public investors via established market communication mechanisms, including through regular dissemination of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and/or

(d) USPh was followed by securities analysts employed by brokerage firms who wrote reports about the Company, and these reports were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

64. As a result of the foregoing, the market for USPh's securities promptly digested

current information regarding USPh from all publicly available sources and reflected such information in USPh's stock price. Under these circumstances, all purchasers of USPh's securities during the Class Period suffered similar injury through their purchase of USPh's securities at artificially inflated prices and a presumption of reliance applies.

65. A Class-wide presumption of reliance is also appropriate in this action under the Supreme Court's holding in *Affiliated Ute Citizens of Utah v. United States*, 406 U.S. 128 (1972), because the Class's claims are, in large part, grounded on Defendants' material misstatements and/or omissions. Because this action involves Defendants' failure to disclose material adverse information regarding the Company's business operations and financial prospects—information that Defendants were obligated to disclose—positive proof of reliance is not a prerequisite to recovery. All that is necessary is that the facts withheld be material in the sense that a reasonable investor might have considered them important in making investment decisions. Given the importance of the Class Period material misstatements and omissions set forth above, that requirement is satisfied here.

**NO SAFE HARBOR**

66. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. The statements alleged to be false and misleading herein all relate to then-existing facts and conditions. In addition, to the extent certain of the statements alleged to be false may be characterized as forward looking, they were not identified as "forward-looking statements" when made and there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. In the alternative, to the extent that the statutory safe harbor is determined to apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the speaker had actual knowledge that the forward-looking statement was materially false or misleading, and/or the forward-looking statement was authorized or approved by an executive officer of USPh who knew that the statement was false when made.

**FIRST CLAIM**
**Violation of Section 10(b) of The Exchange Act and**
**Rule 10b-5 Promulgated Thereunder**
**Against All Defendants**

67. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

68. During the Class Period, Defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiff and other Class members, as alleged herein; and (ii) cause Plaintiff and other members of the Class to purchase USPh's securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, Defendants, and each defendant, took the actions set forth herein.

69. Defendants (i) employed devices, schemes, and artifices to defraud; (ii) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (iii) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices for USPh's securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5. All Defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

70. Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about USPh's financial well-being and prospects, as specified herein.

71. Defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of USPh's value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and/or omitting to state material facts necessary in order to make the statements made about USPh and its business

operations and future prospects in light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities during the Class Period.

72. Each of the Individual Defendants' primary liability and controlling person liability arises from the following facts: (i) the Individual Defendants were high-level executives and/or directors at the Company during the Class Period and members of the Company's management team or had control thereof; (ii) each of these defendants, by virtue of their responsibilities and activities as a senior officer and/or director of the Company, was privy to and participated in the creation, development and reporting of the Company's internal budgets, plans, projections and/or reports; (iii) each of these defendants enjoyed significant personal contact and familiarity with the other defendants and was advised of, and had access to, other members of the Company's management team, internal reports and other data and information about the Company's finances, operations, and sales at all relevant times; and (iv) each of these defendants was aware of the Company's dissemination of information to the investing public which they knew and/or recklessly disregarded was materially false and misleading.

73. Defendants had actual knowledge of the misrepresentations and/or omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing USPh's financial well-being and prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by Defendants' overstatements and/or misstatements of the Company's business, operations, financial well-being, and prospects throughout the Class Period, Defendants, if they did not have actual knowledge of the misrepresentations and/or omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

74. As a result of the dissemination of the materially false and/or misleading

information and/or failure to disclose material facts, as set forth above, the market price of USPh's securities was artificially inflated during the Class Period. In ignorance of the fact that market prices of the Company's securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by Defendants, or upon the integrity of the market in which the securities trades, and/or in the absence of material adverse information that was known to or recklessly disregarded by Defendants, but not disclosed in public statements by Defendants during the Class Period, Plaintiff and the other members of the Class acquired USPh's securities during the Class Period at artificially high prices and were damaged thereby.

75. At the time of said misrepresentations and/or omissions, Plaintiff and other members of the Class were ignorant of their falsity, and believed them to be true. Had Plaintiff and the other members of the Class and the marketplace known the truth regarding the problems that USPh was experiencing, which were not disclosed by Defendants, Plaintiff and other members of the Class would not have purchased or otherwise acquired their USPh securities, or, if they had acquired such securities during the Class Period, they would not have done so at the artificially inflated prices which they paid.

76. By virtue of the foregoing, Defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

77. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's securities during the Class Period.

## SECOND CLAIM
## Violation of Section 20(a) of The Exchange Act
## Against the Individual Defendants

78. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

79. Individual Defendants acted as controlling persons of USPh within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions and their ownership and contractual rights, participation in, and/or awareness of the Company's

operations and intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which Plaintiff contends are false and misleading. Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings, and other statements alleged by Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

80. In particular, Individual Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

81. As set forth above, USPh and Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their position as controlling persons, Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

## PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

(a) Determining that this action is a proper class action under Rule 23 of the Federal Rules of Civil Procedure;

(b) Awarding compensatory damages in favor of Plaintiff and the other Class members against all defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

(c) Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

(d) Such other and further relief as the Court may deem just and proper.

**JURY TRIAL DEMANDED**

Plaintiff hereby demands a trial by jury.

Dated: March 31, 2017

**GLANCY PRONGAY & MURRAY LLP**

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*Attorneys for Plaintiff*

## SWORN CERTIFICATION OF PLAINTIFF

## U.S. PHYSICAL THERAPY, INC. SECURITIES LITIGATION

I, Maura Culhane, individually, and/or in my capacity as trustee and/or principal for accounts listed on Schedule A, certify that:

1. I have reviewed the Complaint and authorize its filing and/or the filing of a Lead Plaintiff motion on my behalf.

2. I did not purchase **U.S. PHYSICAL THERAPY, INC.**, the security that is the subject of this action, at the direction of plaintiff's counsel or in order to participate in any private action arising under this title.

3. I am willing to serve as a representative party on behalf of a class and will testify at deposition and trial, if necessary.

4. My transactions in **U.S. PHYSICAL THERAPY, INC.** during the Class Period set forth in the Complaint are as follows:

   (See attached transactions)

5. I have not served as a representative party on behalf of a class under this title during the last three years, except for the following:

6. I will not accept any payment for serving as a representative party, except to receive my pro rata share of any recovery or as ordered or approved by the court, including the award to a representative plaintiff of reasonable costs and expenses (including lost wages) directly relating to the representation of the class.

I declare under penalty of perjury that the foregoing are true and correct statements.

3/29/2017
Date

DocuSigned by:
Maura Culhane
00C896F09DCB4A1...
Maura Culhane

**Maura Culhane's Transactions in**
**U.S. Physical Therapy, Inc. (USPH)**

| Date | Transaction Type | Quantity | Unit Price |
|---|---|---|---|
| 12/28/2016 | Bought | 20 | $71.0000 |